Student’s name

Instructor’s name

Course

Date

Opportunity Cost

Numerous business enterprises have long been associated with either financial transactions or the striving for innovation, whereas most of businesses’ success relies upon the opportunity cost. The opportunity cost may be defined as a benefit of an individual, investor, or business that is missed out because of making a choice of one variable over another. One of the most peculiar notions concerning the opportunity cost is that its measurement is complicated at its core, and hence most financial reports do not include the opportunity cost. Although it is often speculated that the opportunity cost is merely an abstract term of little or no relevance in the majority of business operations, the examination of the opportunity cost’s specifications, related problems, and cultural discrepancies prove the significance of the opportunity cost in the contemporary financial environment.

First and foremost, the specifications of the opportunity cost rely upon managing business decisions, which often include the calculation of existing variables, the potential profitability of an investment, and its use in fields other than economics. Considering the calculation of the opportunity cost, one of the most commonly accepted approaches is the identification of the expected returns of each available option (Kenton). Although this methodology may seem to be easy at first glance, the merger of various economic indicators and financial projections takes place to observe the differences between these options. With regard to the obvious difficulties in the calculation of the opportunity cost, the return on investment is often taken into consideration as the central economic indicator. Notwithstanding, the potential profitability of the opportunity cost is dependent on the ways through which it is applied. More precisely, the size of the capital structure, power of debt, and profit margin stand out as the crucial determinants for the opportunity cost to be influential in each particular business decision (Watts 88). As for the use of the opportunity cost in the disciplines other than economics, some scholars indicate its inapplicability in the field of evaluation, which is supposed to work properly disregarding the opportunity cost (Watts 89). Even though this particular hypothesis is somewhat vague, one may point out the overall applicability of the opportunity cost in the extensive diversity of research fields because of its significance in reflecting the scarcity of the world's resources. Since resource availability is scarce, under no circumstances should the opportunity cost be neglected in making each separate decision in either the business or organizational dimension. Having examined the calculation specifications of the opportunity cost in aggregate with the theoretical debate over its application in various research fields, it would make sense to similarly review the problems related to the opportunity cost as a whole.

Secondly, it is generally agreed by economists to argue that the calculation of the opportunity cost is sophisticated due to the common misunderstandings over the existing alternatives, the immeasurable impact of the relative risk, and the utter uselessness of the opportunity cost in situations that present no choices for a business. As it was partially indicated above, the calculation of opportunity costs incorporates numerous factors and indicators, which rely upon the unique economic context of the organization. While one company may use a simple formula to determine the opportunity cost based on the return rate between two variables, another one may face uncertainty because of having dozens of opportunities with a plethora of operational expense and profit margins (Kenton). Consequently, a common misunderstanding occurs when the company utilizes the opportunity cost disregarding the unique context of an application, which makes it tough to comply with the most justified business solutions.

Other than that, the aspect of relative risk stands out as the concept, which may have adverse implications in the long-term perspective, even if the company's choice was justifiable under the scope of the opportunity cost. With regards to these cases, the most rational explanation is that the opportunity cost emphasizes complex projections and estimations, which in turn include the relative risks in their formulas. Another vital factor is the uselessness of the opportunity cost in situations when an existing business environment presents no variables; however, it should be noted that the opportunity cost is not a panacea from inadequate decisions but rather a tool for calculating the most efficient and effective approaches for individuals. Lastly, one may point out that the misconceptions of the opportunity cost are crucial merely in the context of an individual's mistake, meaning that the economic benefit of the opportunity cost itself is ultimately positive in the error-free decision-making process.

Thirdly, the recently raised awareness of the economy towards the implementation of the psychological approaches in researching the opportunity cost has led to the emergence of studies focused on cultural discrepancies in either the consideration or neglect of the opportunity cost, which should be examined in detail. The passion for the examination of the opportunity cost in accounting, behavioral economics, marketing, and psychology has intensified after the broader acceptation of its relevance and usability. For instance, the research piece by Zhang et al. (2017) investigates the opportunity cost consideration between Chinese and Euro-Canadians. The design of the research is the empirical comparison between the representatives of various cultures based on both thoughts and actual decisions between variables with obvious opportunity cost factors. As the research identifies, the Chinese were more prone to consider the opportunity cost and make decisions in accordance with evident financial benefits (Zhang et al. 9). Moreover, such results contribute towards a broader research field of behavioral economics, meaning that the opportunity cost is a reliable economic benefit, which may be used for separate analysis in the intercultural level.

Indisputably, the context of scarce natural resources forces businesses to consider the opportunity cost in their operations, whereas the noticeable merit in the form of financial benefit calculates the opportunity cost to be more appealing in terms of organizational profit. Nevertheless, the correlation between cultural predisposition and the consideration of the opportunity cost seems to justify the assumption regarding the widespread use of the opportunity cost in other research fields besides economics. The practical implications of these results may be vital for one's business decisions or companies, which strive for reaching a competitive advantage via the minimization of spending. By doing so, the opportunity cost may be used to determine the scale of the minimization and hence become a crucial determinant for a company's compliance with its business objectives.

Having scrutinized the aspects of the opportunity cost's specifications, relevant issues, and the element of cultural differences, one may delve into the overall usability of the opportunity cost as an essential indicator, which is widely applied in the modern business setting.

Since it was pointed out that the misconceptions with the opportunity cost are the faults of choice, the calculation itself is accessible for companies who are willing to make the best choice between numerous variables. Problems with the opportunity cost are generally related to the misunderstanding of how to count the opportunity cost and the overall uncertainty regarding the variables. A peculiar notion is that the cultural differences play a vital role in representing either the rejection or consideration of the opportunity cost in the domain of personal decisions, which has practical implications for the field of marketing. The merger of earlier depicted points forces to perceive the opportunity cost as a useful economic tool for achieving efficiency in business decisions. Even though the process of calculation and the projection of outcomes may be troublesome, the implementation of the opportunity cost beyond the financial report is beneficial for any decision between a few variables. Therefore, under no circumstances should the significance of the opportunity cost be neglected, yet a proper calculating methodology is obligatory to ensure the accuracy of benefit estimations, which are utterly required for the decisions in the modern business environment.

Works Cited

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